

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

TOWN OF MIDDLETOWN

GRANTS AND LOANS REVIEW
SPECIAL INVESTIGATION

AS OF AUGUST 1, 2006

FIELDWORK END DATE: AUGUST 11, 2006

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EXECUTIVE SUMMARY

Town grants, loans to not-for-profit organizations, and town credit card expenditures are paid with Town General Administration funds, which include commingled State and local monies. Because local and State monies are not separately tracked within this fund, we are unable to conclude as to the source of funding (State versus local).

Grants

The Town of Middletown (the Town) established a grant program to provide grants to organizations and individuals in the Town of Middletown.

The Town does not have formal policies and procedures to govern the grant process. The Town is not administering the grant program in accordance with its own informal policies for the approval and disbursement of funds.

Loans to Not-For-Profit Organizations

During our review, we noted that the Town is providing interest free loans to several churches and the MOT Senior Center. Terms per the agreements allow for organizations to make payments on the principal balance at the recipients' discretion, but require the total loan balance to be repaid within a specified time period. We noted that there were no agreements for the two MOT Senior Center loans.

Credit Cards

The Town does not have formal policies and procedures in place regarding the handling, use, or reimbursement processes for Town credit cards.

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ALLEGATION AND BACKGROUND

ALLEGATION

The Office of Auditor of Accounts (AOA) received a complaint regarding the Town of Middletown. The allegation states that:

- The Town may be misusing public funds to administer their grants and credit card programs.

BACKGROUND

Grants

The Town has provided grants to local organizations and individuals for several years.

The loans are given at the discretion and approval of the Mayor and Town Council. The Town Council reviews and approves an annual grant budget as part of the annual Town Budget approval process (the grants are approved as a line item in the General Administration Town Budget). The Mayor and Town Council review grant requests, which are detailed on Grant Request forms completed and signed by the requesting organization/individual, in batches prior to Town Council meetings. There is no documentation of Town Council approval for the grant amounts. Per informal policies, requests approved by the Council are signed and dated by the Mayor as evidence of review and approval for the individual grant.

Grant request forms include the following information:

- Amount Requested
- Name and Contact Information of Organization/Person Requesting Grant
- Reason for Grant
- Date Requested
- Signature and date line for requesting organization/individual to complete
- Signature, Approval or Disapproval boxes, and date line for Mayor to complete as evidence of review and approval/disapproval (after the above review process has been completed)

Approved grants are processed and marked with a “PAID” date stamp upon payment to the requesting organization/individual.

These grants are paid with Town General Administration funds, which include commingled State and local monies. Because local and State monies are not separately tracked within this fund, we are unable to conclude as to the source of funding (State versus local). We did note, however, that local tax revenues for the Town far exceed the total value of the grants extended through the grants program.

ALLEGATION AND BACKGROUND

Loans to Not-For-Profit Organizations

Upon review of the Town's general ledger chart of accounts, we noted that the Town has five loans to four local not-for-profit organizations: Dales Church, Mt. Calvary Church, Rehoboth Church, and the M.O.T. Senior Center. These loans are interest-free and the agreements do not contain standard repayment schedules.

One loan has been paid in full (Rehoboth Church).

The Town does not have a formal, written policy in place regarding the controls and process for the loans.

Town Credit Cards

Use of Town credit cards is limited to authorized cardholders. Based on our review of Town credit card statements covering the period January 2004 to April 2006, we noted 12 authorized cardholders on the Town's account, including the Mayor, Town Clerk, and key individuals in charge of the respective departments in the Town office.

The Town does not have a formal, written policy in place regarding the handling, usage, and reimbursement procedures for Town credit cards.

Based on discussion with the Town Manager, we noted that the Town no longer allows the use of credit cards for personal charges, effective July 2006. Under the process prior to July 2006, any personal charges incurred on a Town credit card were reimbursed by the employee to the Town (upon the Town's receipt of the statement for that period).

OBJECTIVES, SCOPE, & METHODOLOGY

OBJECTIVES

The objectives of this investigation were to determine:

- Whether the grants and loans under the grants and loans programs were extended in accordance with Town policies and terms of the agreements. In addition, to ensure that grants and loans were extended with appropriate sources of funding.
- Whether grants and loans extended under the grants and loans programs were made to authorized individuals (i.e. not to Town Council members or the Mayor) and were properly approved prior to disbursement.
- Whether Town credit card expenditures were made with appropriate sources of funding and in accordance with Town policies and procedures.

SCOPE

The scope of this investigation covers:

- Town grants provided to individuals/organizations during the period of January 1, 2004 to August 1, 2006.
- Loan agreements for loans to not-for-profit organizations for the period December 31, 1999 to August 1, 2006.
- Town credit card activity for the period January 2004 to April 2006.

METHODOLOGY

The techniques used in this investigation included:

- Interviews and inquiry.
- Inspection and confirmation of documentation.

The investigation consisted of the following procedures:

- Determine whether written policies regarding the grants, loans (to not-for-profit organizations), and credit card programs exist.
- Determine whether recipients of the grants and loans are organizations/individuals within the Town (ensuring no grants or loans were made to the Town Council members or the Mayor).
- Determine whether the source of funding was appropriate.
- Determine whether the Town includes the amounts related to the grants and loans programs in its annual Budget.
- Determine whether the grants and loans were properly approved prior to disbursement of funds.

CONCLUSIONS

The following is a summary of the audit observations and conclusions:

Grants

- The Town does not have a formal, written policy regarding the grants process.
- The Town Council reviews and approves an annual grants budget as part of the annual Town Budget and Town Budget approval process (Note: These grants are included in the Community Grants line item in the General Administration section of the 2004, 2005, and 2006 Town Approved Budgets).
- Individual grants are reviewed in batches prior to Town Council meetings by the Mayor and Town Council. The Grant Request forms for all grants verbally approved during this review are signed and dated by the Mayor as evidence of review and approval.
- We noted that the Town is not in compliance with their informal policy regarding signatures on the Grant Request forms.
- During the period January 1, 2004 through August 1, 2006, 44 grants were provided to 33 organizations/individuals, for a total approved grant amount of \$318,795 during this period. Town expenditures related to the payout of these community grants was \$318,545. (See detail of the 44 grants on the following page).

CONCLUSIONS

Organization	Grant Amount
1 160th FRG c/o Tina Conley	5,000
2 American Legion Middletown Post 25	2,500
3 American Legion Middletown Post 25	3,000
4 Appoquinimink Boys & Girls Club	2,500
5 Appoquinimink Boys & Girls Club	5,000
6 Appoquinimink Boys & Girls Club	5,000
7 Ashley Fletcher	500
8 Bill Marathon	300
9 DE Rural Water	2,000
10 Delaware Holstein Association	100
11 Gibby Perry Arts Center	50,000
12 MHS After Prom	500
13 MHS After Prom c/o Ann Gahan	500
14 Middletown Area Chamber of Commerce	1,000
15 Middletown Area Chamber of Commerce	1,000
16 Middletown Chamber of Commerce	1,000
17 Middletown High School FFA	500
18 Middletown High School: Congressional Youth Leadership Council	500
19 Middletown Historical Society, Inc.	3,000
20 Middletown Historical Society, Inc.	5,000
21 Middletown Historical Society, Inc.	5,000
22 Middletown Tennis Association	5,000
23 Middletown Village Community and Child Watch Group	1,000
24 MOT Charter School PTO	1,700
25 MOT Male Chorus	5,000
26 MOT Senior Center	150,000
27 NCC 4-H/Smyrna FFA Livestock Classic	150
28 NCC Police Department	445
29 NCC Police Department	3,000
30 New Castle County Police DARE Program	3,500
31 New Castle Saints	400
32 Police Athletic League	3,500
33 Police Athletic League	3,500
34 Police Athletic League - Middletown	3,500
35 Rehoboth Church	5,000
36 Silver Lake Elementary PTA	5,000
37 Springmill Community First Responds Group	2,070
38 St. Anne's Episcopal Church	2,000
39 Steph Martin	2,500
40 Town of Middletown: Challenger Softball	3,000
41 Trinity Church	500
42 Volunteer Hose	11,130
43 Volunteer Hose Co.	12,500
44 Wesley Scholarship	500
Total Community Grants, 1/1/04 through 8/1/06	\$318,795

CONCLUSIONS

- Grants are paid with Town General Administration funds, which include commingled State and local monies. Because local and State monies are not separately tracked within this fund, we were unable to conclude as to the source of funding (State versus local).
- The Town does include amounts relating to the grants program in their annual budget.
- There is no documented limit on the grant amount that the Mayor and Town Council may approve for an individual grantee.
- All Grant Request forms were accompanied by adequate supporting documentation regarding the reason/use for the grant monies.
- We noted the following as a result of our review of the documentation of the 44 Grant Request forms from January 1, 2004 through August 1, 2006:

Grant Request Forms not signed/dated by Mayor as evidence of review and approval **	4	9.1%
Grant Request Forms not signed/dated by Grantee	10	22.7%
Grant Request Forms with no reason provided for request	2	4.5%

** Three of these four contained the date and signature of the Mayor in the requesting organization/ individual signature and date section of the Grant Request form. The section of the form designated for the Mayor's signature, date, and grant approval authorization was left blank for these forms.

We noted that five Grant Request forms were signed by the Mayor in both the Grantee and Approval sections of the form.

Loans to Not-For-Profit Organizations

- The Town does not have a formal, written policy regarding the loans process. In addition, there is no formal approval process in place regarding the granting of loans. The only documentation of approval of loans to not-for-profit organizations is the signature of the Mayor, Town Clerk, and witness (from the Town) on the loan agreement. Agreements are also signed by the requesting organization.
- For two of five loan agreements reviewed, there was no formal loan agreement to support the loan's existence, amount, or terms.
- Loans to not-for-profits are paid with Town General Administration funds, which include commingled State and local monies. Because local and State monies are not separately tracked within this fund, we were unable to conclude as to the source of funding (State versus local).
- All the above loans are interest free and do not have standard repayment schedules.

CONCLUSIONS

- During our review of the Town's general ledger chart of accounts, we noted that the Town is providing interest free loans to the following organizations:

Organization	Date of Agreement	Loan Amount	Outstanding Balance (as of 8/1/06)	Use of Loan Proceeds	Repayment Terms
Dales Church	12/31/99	\$ 36,477	\$25,977	Improvements	Total to be repaid within 15 years, at any time by discretion of loanee
MOT Senior Center	♦ ♦	\$100,123	\$34,784	Purchases of new vehicles (buses) for senior transportation	♦ ♦
Mt. Calvary	2/26/03	\$ 21,000	\$16,105	Improvements	Total to be repaid within 14 years, at any time by discretion of loanee
Rehoboth Church	3/30/04	\$ 1,900	N/A – Paid in full.	New roof	Total to be repaid within two years, at any time by discretion of loanee
TOTAL		\$159,000	\$76,866		

♦ ♦ There are no formal, written agreements for the two MOT Senior Center loans (shown above in one line item because the total amount receivable from the MOT Senior Center is tracked in one general ledger account on the Town's books). Repayment of the loaned amount is to be made to the Town upon the discretion of the Center; there is no documented time limit for repayment of these loans.

CONCLUSIONS

Credit Cards

- The Town does not have a formal, written policy regarding the handling, uses, and reimbursement process regarding Town credit cards.
- Town credit card expenditures are made with Town General Administration funds, which include commingled State and local monies. Because local and State monies are not separately tracked within this fund, we were unable to conclude as to the source of funding (State versus local).

FINDINGS & SUGGESTED COURSE OF ACTION

Objective 1

Determine whether the grants and loans under the grants and loans programs were extended in accordance with Town policies and terms of the agreements. In addition, ensure that grants and loans were extended with appropriate sources of funding.

Internal Control – Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), defines control activities as policies and procedures that help ensure that management's directives are carried out. Policies and procedures must be current to ensure that management's control objectives are met. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents.

Grants

Finding #1

We noted no formal Town policy in place regarding grants. We further noted that the Town is not in compliance with their own informal policy regarding signatures on the Grant Request forms, and that there is no documented limit on the grant amount that the Mayor and Town Council may approve for an individual grantee.

Suggested Course of Action

The Town of Middletown should develop adequate written internal control policies regarding the grant program, including controls over the authorization, disbursement, and collections related to the grants.

Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Written policies and procedures assist management in meeting this responsibility.

Finding #2

For one of the 44 grants reviewed (\$50,000 grant to the Gibby Perry Arts Center), there was no formal documentation for the reason or need for the grant amount requested.

Suggested Course of Action

The Town should ensure that appropriate supporting documentation regarding the reason or need for grant requests is maintained with the original Grant Request Form in the Town's records.

FINDINGS & SUGGESTED COURSE OF ACTION

Loans to Not-For-Profit Organizations

Finding #3

We noted that the Town does not have a formal, written policy regarding the loans process for loans to not-for-profit organizations.

Suggested Course of Action

The Town should develop adequate written internal control policies regarding loans to not-for-profit organizations, including controls over the authorization, disbursement, and collections related to the grants. These policies should include a formal approval process for agreements, including policies regarding the documentation of the approval process.

Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Written policies and procedures assist management in meeting this responsibility.

Finding #4

For two of five loans to not-for-profit organizations reviewed, we noted that there was no formal loan agreement to support the loan's existence, amount, or terms.

Suggested Course of Action

The Town should ensure that adequate supporting documentation is maintained for all financial transactions.

Objective 2

Determine whether grants and loans extended under the grants and loans program were made to authorized individuals (i.e. not to Town Council members or the Mayor) and were properly approved prior to disbursement.

Loans to Not-For-Profit Organizations

Finding #5

There is no formal approval process in place regarding the granting of loans to not-for-profit organizations. The only documentation of review and approval of loans to not-for-profit organizations is the signature of the Mayor, Town Clerk, and witness (from the Town) on the loan agreement.

Suggested Course of Action

The Town should ensure that the policies established regarding the loans process (as recommended above in the *Suggested Course of Action* for *Finding #3*) includes documentation of a formal approval process and the procedures for documenting the approval for these transactions.

FINDINGS & SUGGESTED COURSE OF ACTION

Objective 3

Determine whether Town credit card expenditures were made with appropriate sources of funding and in accordance with Town policies and procedures.

Finding #6

We noted that the Town does not have a formal, written policy regarding the handling, use, or reimbursement procedures for Town credit cards.

Suggested Course of Action

The Town should develop adequate written internal control policies regarding the handling, use, and reimbursement procedures for Town credit cards.

Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Written policies and procedures assist management in meeting this responsibility.

Finding #7

We were unable to conclude as to the appropriate source of funding in Objective #1 and Objective #3 since these transactions are paid with General Administration funds that include commingled State and local monies.

Suggested Course of Action

We recommend that the Town establish separate sub-accounts in their General Administration fund to track State and local monies to eliminate the commingling of State and local funds.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Carl C. Danberg, Attorney General, Office of the Attorney General

Other

The Honorable Bethany Hall-Long, House of Representatives

The Honorable Kenneth L. Branner, Jr., Mayor, Town of Middletown

Members, Town Council, Town of Middletown